

DEMOCRATIC STEERING  
AND POLICY COMMITTEE

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Congress of the United States  
House of Representatives  
Washington, DC 20515

TREASURY, POSTAL SERVICE,  
GENERAL GOVERNMENT

LABOR,  
HEALTH AND HUMAN SERVICES,  
EDUCATION

DISTRICT OF COLUMBIA

September 8, 1986

The Honorable Dan Rostenkowski  
Chairman, Committee on Ways and Means  
1102 Longworth House Office Building  
Washington, D.C. 20515

Dear Mr. Chairman,

I am writing regarding the Conference Report recommendation regarding the three year tax recovery rule. As you are aware from past correspondence, I strongly disagree with the elimination of this proposal and most particularly with the retroactive effective date which has been recommended.

However, recognizing the status of the Conference Report and supporting your effort to reform our tax system, I am recommending a compromise which would retain the Report's retroactive date, but make the bill fairer for our country's more than 3 million federal employees.

In short, most contributory retirement plans only require an employee contribution of 1 to 3 percent. The Federal retirement system however, requires a 7 percent contribution. Rather than penalize Federal workers more severely than other contributing employees, I am recommending that the Conference Report provide that 3 percent of a retiree's contribution would be spread out over the life of the annuitant for purposes of taxation, with the remainder of the contribution restored upfront and tax free. This would recognize the unique and substantial contribution that Federal employees make towards their own retirement.

Assuming that approximately 85,000 Federal employees retire each year, and further assuming an average annuity of \$16,875, at the Bill's 15 percent tax rate, a federal retiree would have to pay approximately an additional \$2,200 tax a year as a result of the recovery rule change. Four percent of an annuitant's contribution would come close to equaling a year's annuity, meaning that if the Report allowed for the 4 percent recovery, it would cost about \$2,200 per employee, or \$187 million per year. The five year cost

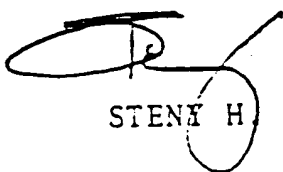
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of such a change would be close to \$ 1 billion by these calculations.

I appreciate the fact that changes are very difficult at this point in time, but I sincerely believe that such a clarification in the transition rules would make the bill much fairer for Federal employees, and aid in building Democratic support among this important constituency. I would hope that you would consider and accept this proposal.

With kindest personal regards, I am

Sincerely yours,

A handwritten signature in dark ink, appearing to be "Steny H. Hoyer", written over a circular stamp or seal.

STENY H. HOYER